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TITLE

RE-LOOKING AT THE WAY WE DO BUSINESS

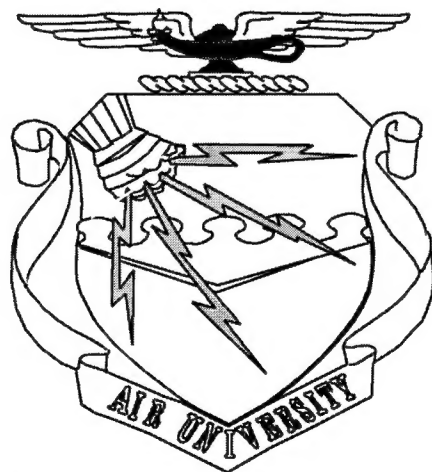
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PMCS IDEA PAPER

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EXECUTIVE SUMMARY

In this idea paper I will discuss the procedures for developing a balanced and executable base level financial plan. I will explain how the guidance for preparing a base level financial plan is received from a Major Command (MAJCOM). Discussion will include the perceived problems associated with MAJCOM instructions and the impact these specific instructions have on Commanders and resource managers at all levels. Finally, I will recommend procedures for preparing a balanced and executable base level financial plan showing ways to improve the process, cut work-years, and satisfy the Commanders.

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INTRODUCTION

All major decisions made in today's environment are heavily influenced by budgets. *Budget*, as defined in the American Heritage Dictionary of the English Language, Third Edition, 1992, is "an itemized summary of probable expenditures and income for a given period" (1:113). Another word often used is forecast. *Forecast*, as defined in the above dictionary means, "To estimate, calculate or indicate in advance" (1:329). It does not matter which word you select. The need for accurate and reliable budgets will continue to gain importance as a result of the increasing economic dilemma, budget reductions, base closures, inflation, large federal deficit, and political upheaval. The process to develop an executable and balanced budget to be mission capable has become a challenge at all management levels. These two phrases, "balanced" and "mission capable" should be synonymous in budget terms. With downsizing and reduced force structure, the need to do more with less is a challenge a Commander faces every day. The need to develop a budget that reflects mission requirements is the first step in building an executable financial plan. The second step is adequate guidance and procedures. In this paper I will discuss the present procedures and guidance as directed by a Major Command (MAJCOM) and the problems associated with this guidance. I will then explain the procedures a base level financial analysis office, Comptroller, and Commanders would like to see implemented to improve the financial plan preparation process.

DISCUSSION

The most difficult task a Comptroller has to accomplish in today's world of ever decreasing budgets is brief the Commander that he does not have enough money to complete his mission. While not being involved in the detail of the preparation of the financial plan and only seeing the final product, the Commander finds this concept hard to comprehend. He sees the final product and immediately knows the "bogey" is not large enough to execute his mission. The commander asks his financial advisor, the Comptroller, why the "bogey" is not large enough to support the mission for the financial plan year.

A "bogey" as financial analysts or budgeteers know, is a forecast for funds for a future point in time. We receive the bogey as part of the "call" from (MAJCOM). The "call" is the instructions and request for the submission of the base level financial plan. The basic purpose of the financial plan submission is to ensure an equitable distribution of the next fiscal year's (budget year) funding. The financial plan concerns the fiscal year that begins on the following October 1st. The base level financial plan is the key document used in the process of equitable distribution of Operation and Maintenance (O&M) funds and requires participation at each management level for its preparation.

The financial plan identifies two levels of funding. Part I is the funded level that equals the bogey, and Part II is the unfunded level that includes all requirements in excess of the bogey. Both levels of funding represent the financial plan year (FPY) total requirements. Actual obligation figures for 30 September represent prior fiscal year (PFY). Approved obligation authority as provided on the Operating Budget Authority Document (OBAD) is the numbers used for current fiscal year (CFY). The call as received from MAJCOM requires the CFY figures be as of 31 December. FPY requirements portray constant

dollars of the year being executed at the time the financial plan is being prepared.

The objective of Part I, the funded portion of the financial plan, require building a balanced and executable program meeting all mission requirements.

AREAS OF CONCERN

I will explain the problems associated with the present method used for distribution of the bogey. In the call received from MAJCOM, the instructions for preparing the base level financial plan bases the bogey on the current year's initial distribution of funds. Initial distribution of funds for current fiscal year is received at base level around the end of November. Unfortunately, initial distribution is only a small percentage of the amount needed to execute the complete mission for the year. Because of funding withholds at the various levels at command, funding in its entirety is not distributed to the bases in November. Additional funding trickles downward a little at a time over the course of the current year. It is very hard to build a balanced financial plan using a bogey that is insufficient and does not come close to meeting mission requirements.

Commanders Dislike: Commanders do not like the current method for preparing the financial plan as directed by MAJCOM. Even trying to formulate a financial plan submission using a forecasted figure that you know is too small before you even begin sends a negative connotation. The Commander asks why he is being forced to use a number that is unrealistic and he knows it will change (grow) over the year. When compared to the prior year execution numbers, you can understand the concern. Another area of concern for the Commander is whether to cancel part of the mission based on the number used for the funded portion of the financial plan. If he is to cancel part of the mission with the expectation of receiving funding based on the bogey, when does he

make that decision? Some challenges the Commander faces are, does he reduce the number of pilot training classes, or reduce a syllabus, or no classes at all? At what point does he make these decisions? He can gamble that additional funding will be forthcoming and begin to execute training based on anticipated funding levels. This is not a very reliable way to do business.

Funded Portion: Part I is the funded portion of the financial plan or the bogey. Using MAJCOM's current procedure of developing a financial plan, the delta between prior fiscal year and current fiscal year is enormous. Since the requirement exists to fully justify all deltas with a five percent increase or decrease, justification of every number becomes a necessity. Unfortunately, this is an effort in futility, and is neither necessary, beneficial nor required if MAJCOM took a more realistic approach.

Unfunded: Part II of the financial plan is the unfunded portion. This is the requirement needed in addition to the funded portion. When using a reduced bogey, the only recourse to identifying total requirements is in Part II, the unfunded part of the financial plan. The unfunded section requires an in-depth narrative justification of requirements plus a statement explaining the impact of not receiving funding. Considering the amount of the bogey, the unfunded portion will unfortunately be massive, not only in stated amounts, but in volume as well. The excessive time it takes to write a good narrative justification and impact statement is overwhelming. This time element impacts every person involved in the formulation stage of financial plan preparation. The next step of this process is to prioritize the unfunded requirements. Because of the volume of the unfunded requirements, the prioritization process is a nightmare. Every resource manager believes his mission is the most critical and fights for his unfunded requirements to be at the top of the list. Needless to say, the process

gets emotional, forces unnecessary work and creates animosity among the participants.

Approval Process: The Comptroller can actually lose body parts during the approval process of the financial plan. When the senior leadership and general officers express their dislike for the small bogey and large unfunded amount, how does the Comptroller respond? Well, Sir, "This is the way MAJCOM directed us to build the financial plan." This response does not carry much weight. It is no wonder I keep hearing the Commanders say, "It is time to re-look at the way we do business."

CONCLUSION

The base level financial plan is the vehicle used to identify mission requirements to higher headquarters. Not only should the financial plan be balanced concerning mission and quality of life, it should be executable. The process used at base level to prepare a financial plan as directed by MAJCOM needs to be adjusted to correct the deficiencies identified in this paper. The lengthy process of preparing the financial plan using an insufficient bogey costs the taxpayer's money. Time relates directly to money as each level of resource management becomes involved in building a financial plan. The consolidation process of the financial plan is lengthy and requires numerous work-years. Due to force reductions, the number of personnel still available to gather the data for financial plan preparation and consolidation is decreasing. Doing more with less seems to be the norm; however, we need to work smarter. Reducing the number of unfunded requirements and including them in the funded portion of the financial plan will require less narrative justification and impact statements. Less narrative justification and impact statements mean less volume in numbers and data in the unfunded section. Providing Commanders with more realistic

funding guidance also allows them to plan more effectively and spend taxpayer's resources more wisely. Currently, the large delta between prior fiscal year obligations and the funded portion of the financial plan is difficult to brief to the Commander. In addition, briefing and explaining the large number of unfunded requirements is not only laborious, but hard for the Commander to comprehend and act upon. He may recall having recently reviewed all annual service contracts and remembers all these contracts are valid requirements. The vivid memory of the painful drill of cutting the fat from the service contracts is still fresh, yet confusing when these contracts appear in the unfunded section of the financial plan. The question asked, why don't we have enough bogey to cover them? Again, more unnecessary work for the Comptroller as he tries to explain.

RECOMMENDATION

I recommend MAJCOM implement new procedures for developing the bogey used in base level financial plans. Using prior year obligations as the baseline for building a base level financial plan and developing the bogey using this concept is a more sensible approach. Under this concept, a bogey would be issued after adjusting prior year obligations by any one-time requirements or mission changes. This would be a realistic number to use as a forecast. This proposal will enable commanders to identify total mission requirements in the funded portion of the financial plan. By implementing this procedure we will be empowering our Commanders to use the flexibility needed to prepare a balanced and executable financial plan. Since MAJCOM uses the base level financial plan mainly for the initial distribution process and not for the POM process, I recommend this process be implemented at once. Not only will this procedure reflect the true total requirements, it will enhance the process of identifying real

unfunded requirements. Receiving initial distribution based on this new procedure, the process of identifying, validating, and prioritizing the unfunded requirements becomes a reality. This process will save many work-years, as well as save the Comptroller body parts during the briefing and approval process. With the continued down-sizing of both, military and civilian personnel, we have lost a tremendous amount of expertise in the resource management field. It is time to take a proactive approach to working smarter and eliminating unnecessary work. The Commanders want to develop a financial plan based on requirements and they want MAJCOM to recognize this need.

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